BILL # SB 1290 **TITLE:** electric generation facilities; tax valuation

SPONSOR: Martin **STATUS:** As Introduced

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FISCAL ANALYSIS

Description

This bill requires the Department of Revenue (DOR) to modify the valuation tables it uses to determine the full cash value of property used in operating natural gas fired electric generation facilities placed in service after January 1, 2001, otherwise known as "merchant plants." For personal property, the department would be required to use an 18-year valuation table instead of the current 25-year valuation table used by DOR. For real property improvements, the bill requires a 25-year valuation table, which DOR currently uses.

Estimated Impact

Based on DOR estimates, this bill could cost the General Fund between $870,000 in FY 2007 and $3.2 million in FY 2011. The bill will reduce statewide net assessed valuation (NAV), which will increase the state's K-12 education formula cost. That impact, however, could be offset by reducing the cost of automatic school tax rate reductions that are designed to offset higher assessed value. There will be less of a tax rate reduction since the bill will lower the growth in assessed value. The net General Fund cost after accounting for the school tax rate reductions would be between $870,000 in FY 2007 and $1.0 million in FY 2011.

The cost estimates above are based on the expected amount of NAV that would be foregone under SB 1290. It should be noted that DOR provided separate NAV estimates for "merchant plants" and "incumbent plants." Merchant plants refer to electric generation facilities that were placed in service after January 1, 2001. Such plants sell energy on the open market and are generally not owned by a regulated utility. Incumbent plants refer to all other electric generation facilities. DOR argues that the uniformity clause of the Arizona Constitution would be violated if SB 1290 is only applied to merchant plants and not incumbent plants. However, industry representatives disagree with this interpretation and contend that the bill would only affect merchant plants. Under DOR's interpretation, the cost estimates above would increase by about $350,000 a year.

NAV estimates provided by industry representatives last year are comparable to DOR's current estimates for merchant plants. JLBC Staff does not have an independent means of determining the valuation of these particular properties.

Analysis

Compared to current law, DOR estimates that SB 1290 will reduce the NAV of merchant plants by $(22.5) million in tax year 2006, $(37.7) million in tax year 2007, $(54.1) million in tax year 2008, $(69.7) million in tax year 2009, and $(81.7) million in tax year 2010.

Under the Basic State Aid formula, the state pays for the cost of K-12 education not generated through local property taxes. The state also pays a percentage (between 36% and 40%) of residential property taxes through the Department of Education's Homeowner's Rebate program. While SB 1290 will not affect residential property valuation, it will impact the school qualifying tax rate (QTR). By reducing NAV by $(22.5) million in tax year 2006, the bill will result in a direct increase of the state share of K-12 funding by $870,000 in FY 2007. This impact grows to $3.2 million by FY 2011. This estimate includes the net impact of both Basic State Aid and the Homeowner's Rebate.

The NAV reductions under SB 1290 will also generate savings in the cost of the state's Truth in Taxation (TNT) program. TNT reduces the QTR and county equalization tax rate to offset growth in existing property values. This reduction occurs automatically unless the Legislature decides to forego the TNT adjustment. For FY 2007, however, the TNT rates have already been established and would therefore not be affected by the tax year 2006 NAV reduction under this bill. For this reason, there would be no offsetting TNT saving in FY 2007.

For FY 2008, the school tax rate is expected to be reduced by 10.9¢ under existing statutes. However, the lower NAV under SB 1290 would result in the tax rate reduction being 0.1¢ less than under current law. The higher QTR under the bill will reduce the net General Fund cost increase from $1.5 million to $0.9 million in FY 2008, which constitutes a TNT saving of $(0.6) million.

The proposal will also affect state General Fund revenues. Although the state property tax was repealed in 1996, the General Fund still receives property tax revenues from unorganized districts and school districts that levy the minimum qualifying tax rate. The impact on state revenues could not be determined but is expected to be negligible.

As noted above, the fiscal impact of this bill depends on whether the TNT impact is included or not. In the absence of a TNT adjustment, it is estimated that the cost to the General Fund will be about $870,000 in FY 2007, $1.5 million in FY 2008, $2.1 million in FY 2009, $2.7 million in FY 2010, and $3.2 million in FY 2011. If the QTR is adjusted to account for TNT, however, the bill would have a General Fund cost of $870,000 in FY 2007, $930,000 in FY 2008, and about $1.0 million in each year between FY 2009 and FY 2011.

Local Government Impact

This bill would shift the tax burden to property owners not affected by this legislation and/or result in property tax losses for local governments.

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